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THE SOVIET WORLD

The 1,347 members of the newly elected Supreme Soviet convened in Moscow last week to hear and ratify the 1954 budget, to greet with prolonged applause speeches on the "State of the Union" by Malenkov, Khrushchev, Kaganovich, Mikoyan and other top leaders, and to approve a startling number of ministerial changes which in essence returned the state machine to the organization jettisoned immediately after Stalin's death in March 1953.

Surprisingly, Malenkov, although chairman of the Council of Ministers, spoke to only one house of the Supreme Soviet, and later in the day Khrushchev, first secretary of the party, spoke to the other, thus symbolizing the unceasing propaganda contention that collective leadership is an operative arrangement in Soviet life. Both the speeches were an hour long, dealt with topics in the same order, though at varying lengths, and appeared intended to indicate clearly to the audience that the top two men within the collegial leadership were speaking.

The speeches reflected the same division of labor which has been noted in earlier statements--Malenkov emphasizing labor productivity problems and Khrushchev focusing on agriculture. Noting that "a serious lag in the growth of labor productivity has been occurring in a number of branches of the national economy," Malenkov reminded his audience that fulfillment of the Five-Year Plan and completion of the consumers' goods section in four years depended on a rapid rate of productivity growth. He restated the government's measures for counteracting the downward trend in productivity improvement--more intensive mechanization, more efficient organization, and improved technical training.

Khrushchev devoted particular attention to the government's scheme for reclaiming marginal land for farming. He proclaimed that this program, which was tardily organized, was meeting with enthusiastic response. According to his statement, more than a million and a half "Soviet patriots" have requested assignment to the new lands in two months and more than 80,000 technicians "have been directed" to this work.

On foreign affairs, the speeches were again very similar in substance, although Malenkov in a dull recitation examined a wider range of foreign problems while Khrushchev made a hard-hitting attack on Secretary Dulles and the United States. Neither speaker opened any new vistas for Soviet policy. Both reiterated familiar refrains on the need for a reduction of

tension and an expansion of trade, and on the possibility of settling outstanding problems, which would permit the peaceful--even if uncomfortable--coexistence of the two worlds. Both speeches were slightly harder in tone than previous remarks of the new leadership and appeared to express a greater self-assurance which might derive from a successful year in command and from a belief that the present international position of the Communist world has improved.

Despite the outward appearance of unity in the two speeches, there were again subtle differences in approach and tone. Malenkov failed to mention any of the recent central committee plenums in which Khrushchev played a major role and virtually ignored the central committee itself. Khrushchev, on the other hand, made frequent references to the committee and gave the plenums credit for uncovering shortcomings and mapping out new plans for the development of the economy.

The final session of the Supreme Soviet brought forth a new organization for the Council of Ministers. Ministries which had been amalgamated in 1953 were sundered, at least one completely new ministry was created, the State Bank was reconstituted as an independent organ, and a committee for State Security headed by I. A. Serov, a former first deputy minister of the MVD, was established under the Council of Ministers. Both Malenkov and Khrushchev had discussed the problems raised by the hasty amalgamation of last year and asserted that it had resulted in clumsy, top-heavy complexes, which had not worked as well as hoped for. The return to smaller, better-integrated ministries is the latest tactic to be tried in the unending search for optimum performance in a centrally planned economy.

Probably the most important shift to emerge from the Supreme Soviet appeared in the composition of the party presidium. While all full members of the group retained the status they have held since Beria's purge, lists of those attending the meetings confirmed suspicions that A. I. Kirichenko, party boss of the Ukraine, has been added to that body, at least on the candidate level. On the other hand, P. K. Ponomarenko, who has been sent as first secretary to Kazakhstan, presumably to direct the mammoth land reclamation project, was not carried on any of the lists nor seen in the government boxes with other members of the presidium and can be assumed to have been dropped.

THE 1954 SOVIET BUDGET*

The 1954 Soviet budget, presented in the Supreme Soviet on 21 April by Minister of Finance Zverev, reflects the vigorous effort of the Malenkov government to fulfill its pledge of increased benefits to the Soviet consumer, and to continue simultaneously the long-term development of the industrial base and maintain a high level of military preparedness.

Total expenditures, the highest in Soviet history, are planned at 562.7 billion rubles, compared with actual expenditures of 514.8 billion in 1953. Total revenue is planned at 572.5 billion, while last year's actual revenue was 539.7 billion.

While scheduling marked increases for investment in industry and agriculture, the planners have indicated some reduction in explicit military expenditures (see Table I, p. 9). For 1954, the government carried out the promise made in 1953 for a reduction in the agricultural tax, but made no further tax and state loan concessions. This year the regime evidently plans to help the consumer less by such dramatic measures as large price cuts and more by providing the foundation for an expanded supply of consumer goods.

The planned allocation this year for maintenance and equipment of the armed forces is 100.3 billion rubles as compared to 110.2 billion in 1953. This expenditure appears adequate, however, to maintain the military establishment at its present strength. Since there are indications that the 1953 defense expenditures were underfulfilled and fell slightly below the 1952 level, the smaller budget allowance for 1954 probably does not represent a significant reduction from actual outlays in 1953.

The estimated level of military procurement in 1954, measured in constant value rubles, is approximately double that of 1940; it is two thirds that of 1944, the peak year of World War II expenditures. In terms of current rubles, planned military expenditures this year are even larger compared to these earlier years (see Table II, p. 9). Moreover, spending

*This article was prepared in cooperation with the Office of Research and Reports.

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on the development of unconventional weapons is probably not included in the direct defense appropriations, and the main atomic energy outlays are believed to be contained in the category "financing of the national economy." The decline in explicit defense outlays, therefore, does not imply a slackening in these important activities.

Focusing special attention on the areas of the Soviet economy neglected under Stalin, the government has allocated more than half of this year's increase in investment to agriculture and the consumer goods industries, raising their share of total investment from 16 to 24 percent. Simultaneously, however, the growth of heavy industry, essential for supporting both consumer goods production and military preparedness, has not been relaxed. Heavy industrial investment is scheduled to be 12 percent greater than in 1953, thus continuing the trend of past years.

The budget allocation "for financing the national economy" was underspent last year by more than six percent, probably, in large measure, because of transitional difficulties in reorienting the economy to the new economic program (see Table III, p. 10). Because reorientation is now well under way, similar problems should not be encountered to the same degree in 1954.

The government's long-term appraisal of the problems of the Soviet economy also emerges in its plans to provide the first major increase in recent years in appropriations for "social and cultural" purposes. Expenditures in this category are to rise over last year's plan by more than 11 billion rubles to 141.3 billion. Much of the increase will go to education, probably to reinforce the state's intensified activities in the field of general secondary education as well as technical training. The Malenkov and Khrushchev speeches before the Supreme Soviet on 26 April showed that the government is seriously concerned with the problem of improving the technical competence of its working force and managerial cadres.

The 1954 budget also adds substance to another persistent theme of recent economic decrees--increasing the authority and responsibility of officials at the local level. Some real decentralization of control is indicated by the higher proportion of this year's "expenditures for the national economy" to be spent by the republics rather than the union government.

On the revenue side of the budget, principal reliance is again placed on the turnover tax, although receipts from this source are scheduled at about six billion rubles less than in 1953.

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This decrease, in conjunction with the small size of the 1954 price reduction, indicates that a large part of the increase in retail sales is expected from goods taxed at a relatively low rate such as textile products and footwear.

In their search for sources of revenue, Soviet planners are relying more heavily on deductions from profits. To arrive at their estimate of a 12-billion-ruble increase in receipts from this source, however, they have assumed that labor productivity will rise by approximately eight percent this year. This estimate appears excessively optimistic, since the improvement in industrial labor productivity has decelerated in recent years and rose only six percent in 1953. It is questionable whether this trend will be reversed in 1954.

Most of the anticipated revenue increase in this year's budget falls within the category of undisclosed income, which is scheduled to rise by an unexpected 47 billion rubles. It is highly improbable that the State could acquire this much additional revenue without increasing tax rates or resorting to bank credit expansion. Evidence to date does not show that either of these measures, which would be difficult to hide, has been adopted. Therefore, the figure for undisclosed revenue cannot as yet be accounted for. Similarly there is a rise in undisclosed expenditures of 29 billion rubles, after allowing for the price cuts. Since it is difficult to see where the increased revenue can be obtained, it cannot be determined how much of the increase in expenditures is real.

The 1954 budget is an apparently consistent development in the course of the implementation of the new economic program announced by Malenkov in August 1953. The present emphasis is on long-range economic development and investment. Vigorous efforts are planned to implement within the next two or three years the program for the expansion of agricultural and consumer goods production. This implementation is designed not only for the purpose of raising the living standards of the population, but particularly for the ultimate strengthening of the long-range economic potential of the USSR.

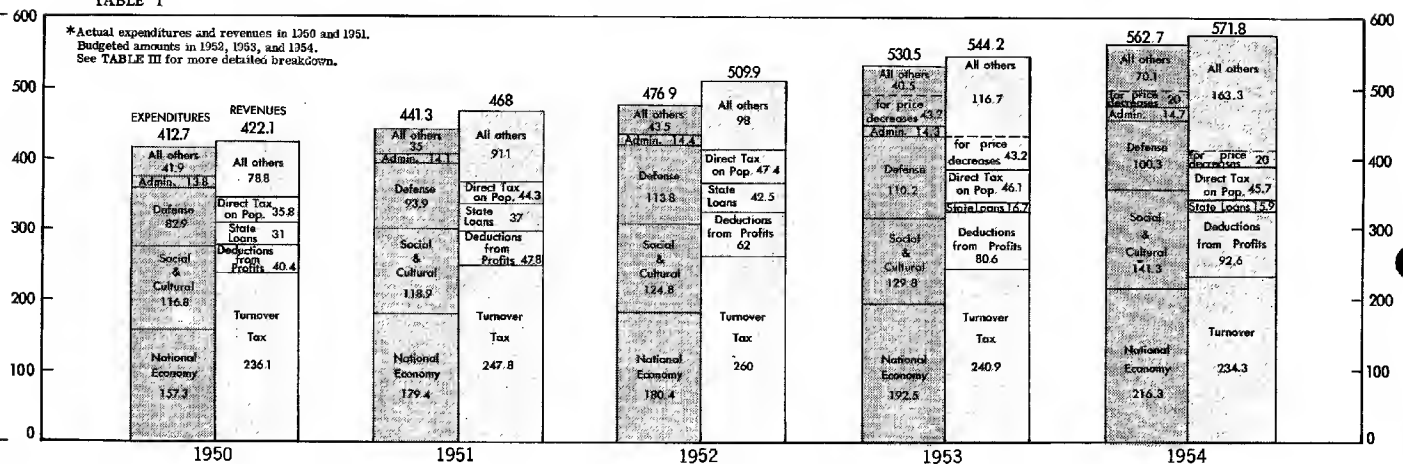
The general economic orientation to achieve these ends is not indicative of all-out mobilization of the economy to support general hostilities in the immediate future. It is recognized, however, that the current level of military expenditures results in the maintenance of a formidable military posture by the USSR.

SOVIET BUDGETS, 1950-1954*

(in billions of current rubles)

TABLE I

*Actual expenditures and revenues in 1950 and 1951.
Budgeted amounts in 1952, 1953, and 1954.
See TABLE III for more detailed breakdown.



ANNOUNCED SOVIET DEFENSE EXPENDITURES, 1935-1954

(in billions of current rubles)

TABLE II

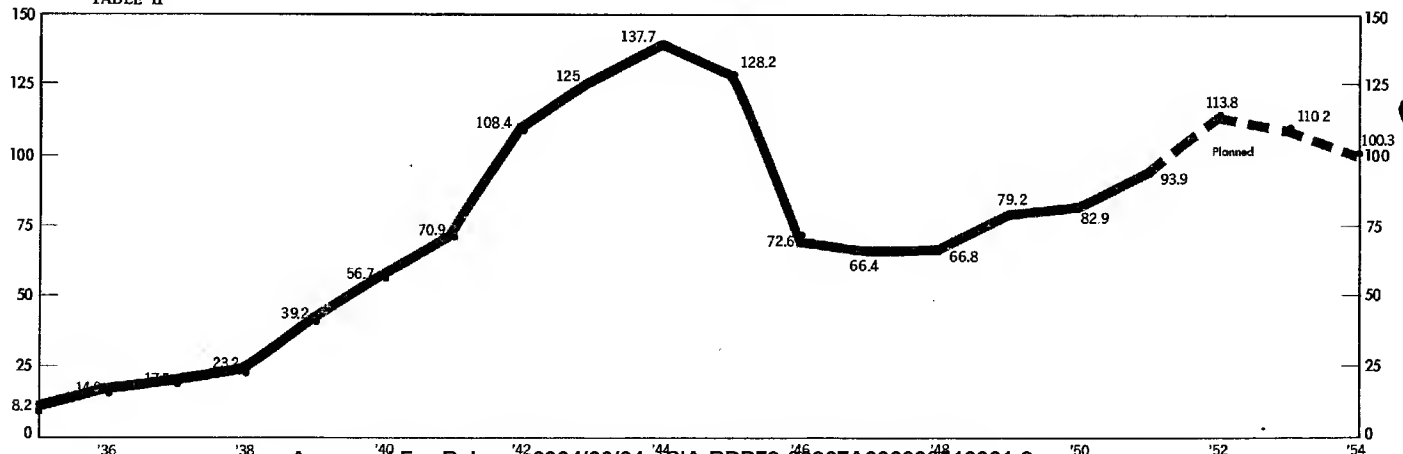


TABLE III

Budget Expenditures (figures in billions of rubles)

	1952		1953		1954
	Plan	Actual	Plan	Actual	Plan
Financing the National Economy:	180.4	178.8	192.5	180.5	216.3
Industry	80.6		82.6		(85.0)
Agriculture (MTS)	34.7	33.5	(35.9)		(48.0)
Procurement	17.0	17.4	19.8	20.6	30.8
			(12.9)		23.3
Total to Agriculture & Procurement*			48.8		71.3
Trade & Procurement*	13.3		(6.9)		(10.0)
Transport & Communications	14.3		17.4		21.4
Communal Economy	(5.0)		(6.5)		(7.5)
Other Expenditures	(32.5)		(30.3)		(21.1)
Social Cultural Measures	124.8	122.8	129.8	128.8	141.3
Education	60.0		62.1		67.1
Health & Physical Culture	22.8		24.8		29.3
Other	42.0		42.9		44.9
Administration	14.4	20.9	14.3		(18.0)
Internal Security	17.0		(15.0)		(15.0)
Defense	113.8	108.6	110.2		100.3
Loan Service	8.9		9.8		10.5
Allotments to Special Banks	1.4		(3.0)		(5.0)
Reserve Fund, Council of Ministers	6.1		(7.0)		(7.0)
Allocations for Price Reductions			43.2		20.0
Other Expenditures	10.1		(5.7)		(29.4)
Total	476.9	460.2	530.5	514.8	562.8

Budget Revenues (figures in billions of rubles)

	1952		1953		1954
	Plan	Actual	Plan	Actual	Plan
Turnover Tax	260.7		240.0		234.4
Deductions from Profits	62.0	58.4	80.7	70.3	92.8
Taxation on Population	47.4		46.1		45.7
State Loans	42.6		28.4		(27.4)
Social Insurance Funds	21.4		(22.0)		(25.0)
MTS Revenue	6.0		(7.5)		(9.5)
Taxes on Enterprises & Organizations	10.2		(12.5)		(14.5)
Collections & Various Non-tax Income	14.0		(14.5)		(15.0)
Customs and Reparations	26.2		(24.4)		(20.0)
Allocation for Price Reductions			43.2		20.0
Carry-over from Republic & Local Budgets	2.9		3.1		(3.5)
Other Revenues	(16.5)		(21.5)		(64.7)
Total	509.9	497.7	544.3	539.7	572.5
Surplus	33.0	37.5	13.8	24.9	9.7

() - Tentative estimates

* In 1952, Procurement was included in the Trade and Procurement category; beginning 1953, procurement was transferred to the agriculture category.

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**PROSPECTS POOR FOR DEVELOPMENT OF EFFECTIVE
VIETNAM ARMY**

The Vietnam National Army seems unlikely to develop into an effective striking force capable of operating independently in the near future. This, plus the prospective loss by the French at Dien Bien Phu of a force roughly equal to their present mobile forces in the Tonkin delta, will severely limit the French capability for further significant offensive action and will probably result in a gradual reduction of the areas under French control.

The Vietnam army is composed of some 180,000 regulars, in both light and heavy battalions, and approximately 46,000 auxiliaries. This force, slightly greater than the strength of the French expeditionary corps in Vietnam, is still rated capable of only a supporting mission because of the poor quality of the troops. The regulars, mostly engaged in static defense and pacification duties, are disposed in roughly equal numbers in north, central, and south Vietnam, and only a handful of units are experienced in mobile operations.

The army's expansion has been based on the creation of light battalions, 55 of which, each numbering 640 men, were formed in 1953. Tentative plans call for 66 more this year. The performance of these light battalions has, however, been disappointing. Part of the general weakness of these light units can be attributed to their short training period of three months. Regarding their future capabilities, Vietnamese defense minister Quat said last November that with improved training it should be possible in 1954 for these units to stand up man to man against Viet Minh regional formations. He apparently did not anticipate, however, that even with better training and equipment, they would be able to take on enemy regulars.

The morale problem is serious in the light battalions. It is apparent that the Vietnamese recruit lacks the nationalistic incentive which motivates the Viet Minh soldier. Vietnamese chief of staff Hinh said on 30 March that morale was then at its nadir, for which he blamed political factionalism, corruption and "warlordism." General Navarre observed that the morale and efficiency of the army began to go down following announcement of the Geneva conference.

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The lack of qualified officers and cadres greatly limits the creation of effective field forces. Few Vietnamese officers are capable of assuming either important field or administrative responsibilities, and the formation of the light battalions has often been at the expense of the combat efficiency of existing regular units. General Cogny, noting the weakness of older National Army units in a northern province where military responsibility had been turned over to the Vietnamese, attributed this in part to the stripping of these units' best officers and NCO's to form the light battalions. These older units, however, are responsible for the few instances in which the Vietnam army fought well.

French training of the National Army has been inadequate. One qualified American observer attributes the spotty quality of the training to the use as instructors of tired, dispirited men--some serving their third tour in Indochina--who lack the spark and drive necessary to create high morale and a fighting spirit. The French have also feared the political implications of a strong Vietnamese army.

In view of these many basic problems, there is little reason to believe that the recent decrees of the Vietnamese war cabinet will serve to advance the army rapidly toward its ultimate mission of assuming the burden of Indochina's defense. The mobilization decree of 11 April providing for conscription of all males in the 20-25 year group and keeping in service all present army personnel, and the decree providing for the integration of the private armies of politico-religious sects into the National Army, were apparently designed chiefly to impress Paris with Vietnam's determination to wage all-out war.

The capacity of the Vietnamese soldier to fight well has been fully demonstrated by the Viet Minh. With the latter's prestige at a high point, however, and with Vietnam's future apparently hanging in the balance at Geneva and Paris, the drive necessary to develop an effective army is virtually nonexistent.

EFFECTIVENESS OF EUROPEAN PAYMENTS UNION THREATENED

The European Payments Union (EPU)*, which has made a major contribution to European recovery and integration, is formally due to end on 30 June unless a compromise is reached before then on the fundamental differences between chronic debtor and creditor member countries. It seems almost certain that the Council of Ministers of the Organization for European Economic Cooperation, the EPU's parent body, will work out a one-year extension of the current agreement at its meeting in Paris on 5 May, but there is a danger that political pressure for extension may lead to modifications in procedures that would weaken EPU's effectiveness.

The EPU was established with American assistance in mid-1950 to facilitate clearance of intra-European payments pending restoration of general dollar convertibility. Payments deficits are settled partly in gold or dollars and partly by grants of credit from surplus to deficit countries. The participating countries also agree, as a step toward the basic goal of expanding trade, to reduce progressively their restrictions on imports from other member countries.

Under these arrangements intra-European trade between 1950 and 1953 increased 25 percent by volume and 46 percent by value. During 1953 alone the percentage of such trade conducted free of import quota restrictions rose from 65 to 75, and gold and dollar reserves of the Western European countries increased 24 percent to about 12 billion dollars. This amount in comparative purchasing power is still only about half the prewar level and inadequate to support a sudden shift to dollar convertibility, but there is nevertheless a growing expectation in Europe that general dollar convertibility will be possible within 12 to 18 months.

Progress toward convertibility has intensified a basic conflict between chronic creditors and debtors which threatens to kill the EPU before it has accomplished its mission. The creditor countries--principally West Germany, Switzerland, Belgium, and the Netherlands--are demanding provisions for prompt automatic payment of EPU debts, with a larger percentage of gold or dollars in the payments. The debtor nations--principally Britain, Italy, France, Norway, Denmark, and Turkey--fear that such provisions, by reducing their gold and dollar reserves, would delay dollar convertibility for them, and want the present arrangement maintained.

*Austria, Belgium-Luxembourg, Denmark, France, Germany, Greece, Iceland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and United Kingdom.

Leading antagonists in this controversy are West Germany, whose total credits in EPU now exceed the equivalent of one billion dollars, and Britain, whose deficit is the equivalent of approximately \$500,000,000 and likely under present trade trends to increase. The West Germans argue that the EPU was established as an interim short-term credit system and should prevent the accumulation of long-term debts in its clearing operations, and that debtors should therefore adjust their economies so as to reduce their EPU deficits. Such measures are held essential for transition to a broader system of trade and payments.

Britain holds that these measures would increase present strains on the EPU and make it difficult to maintain present levels of trade liberalization. It insists that the West Germans themselves are largely responsible for the extreme creditor-debtor problem, and that to solve it they and other creditors must pursue "good creditor" policies of encouraging imports, abolishing artificial export incentives, and increasing domestic consumption.

In return for the adoption of a "good creditor" policy by West Germany and as an alternative to EPU adoption of an automatic debt repayment system and increased gold ratios, the British have offered to make bilateral arrangements to repay West Germany, Belgium, Switzerland and the Netherlands \$350,000,000 due them, with approximately 25 percent of this to be paid at once in gold. France has recently indicated it may make immediate cash payment of slightly over 15 percent of its present EPU deficit of \$47,000,000.

The debtor proposals are being reviewed and negotiated among EPU member countries in anticipation of the 5 May meeting of the OEEC Council of Ministers. There are indications of a fairly general desire to compromise--in large part because most member countries still fear an American economic recession which would cut back their dollar earnings and make the EPU necessary to continue clearance of nonconvertible currencies. The technical experts have not yet had time, however, to examine the problem of adjusting EPU's operating techniques to a changing situation. There is thus a real danger that political demands for compromise may lead to modifications which would undermine the EPU's effectiveness.

AUTHORITARIANISM GROWING IN NATIONALIST CHINESE REGIME

Authoritarian elements in the Chinese Nationalist government have increased in strength in recent years and may now be close to a final victory over Western-oriented leaders. Chiang Kai-shek's choice of a premier in May is expected to indicate Formosa's future course.

The trend was highlighted by K. C. Wu's charges in February that the Formosa government is being turned into a "police state" by Chiang Kai-shek and his elder son Chiang Ching-kuo. Wu, long a top Nationalist official and highly regarded by American observers, has been living in self-imposed exile near Chicago for the past year.

Wu's principal charges are that (a) Kuomintang one-party rule and "political tutelage," theoretically abolished in 1947, in fact continue; (b) the Nationalist armed forces are little more than an instrument of the party, due to the activities of Chiang Ching-kuo's general political department under the Ministry of National Defense; (c) civil liberties have been suppressed by secret police under young Chiang's direction; and (d) the Anti-Communist National Salvation Youth Corps headed by Chiang Ching-kuo plays a leading role in authoritarian indoctrination.

Many prominent Chinese have deprecated Wu's methods of airing his charges through the American press and radio and have publicly denied their validity. Some, however, have privately stated that Wu's claims, while in certain respects exaggerated, have a core of truth. Reports from Formosa in the past two years support this evaluation of the Wu indictment--even taking into account the traditional authoritarianism of Chinese governments and Formosa's critical security situation.

The outcome of the March elections bears out Wu's charges by demonstrating that the Kuomintang is still the only political power in Nationalist China, and that with few exceptions party power and governmental authority are held in the same hands. There have also been reliable reports of extralegal police action. The Youth Corps' strong resemblance to Communist and Fascist youth organizations supports Wu's assertion that it is used for authoritarian indoctrination. The American military assistance group has persistently recommended a reduction in the authority of the political department of the Defense Ministry, which is modeled on the Soviet political officer system.

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Chiang Ching-kuo, now 45 and the leader of the authoritarian element, was trained in the USSR from 1926 to 1937. Since 1948 he has steadily risen in both the party and the government to a position of power second only to that of the generalissimo himself. He is the director of the political department, and his connections with key police officials give him wide power over public security agencies in both the national and provincial governments.

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Young Chiang is also a member of the Kuomintang central executive committee, which determines party policy, and he controls six of the ten members of its standing committee. Finally, through the Youth Corps he dominates the primary and secondary schools on Formosa and holds the allegiance of approximately 25,000 future party members.

The struggle between the authoritarian wing of the Kuomintang and the loose coalition of independents apparently began in earnest during the Korean war, when the authoritarians became convinced that American aid would be assured regardless of Formosa's internal political organization. With the dismissal and denunciation of Wu, following the fall last November of another independent leader, Wang Shih-chieh, the secretary general in the president's office, the struggle may be coming to an end.

On the other hand, Chinese sensitivity to critical American press comment on the Wu case, shown by official and semiofficial statements on the need for constructive criticism, may indicate that the issue between the authoritarians and the independents is still in doubt. Evaluation of such statements is difficult because in the past declarations of the need to "reform" have frequently been offered as a substitute for actual reforms.

The appointment of a new premier, due in May, should provide a good indication as to the probable course of Chinese Nationalist politics. At that time Chen Cheng, the present premier and an independent, will assume the vice presidency, an office without power. Legally Chen could hold both posts but he himself has suggested that he will not. If Chiang Ching-kuo or a member of his faction is appointed premier, the authoritarian forces will be approaching full consolidation of their control.

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LATIN AMERICANS EXPRESS DISSATISFACTION WITH CARACAS CONFERENCE

During the month since the Tenth Inter-American Conference adjourned, comment in the Latin American press has pointed to widespread dissatisfaction with the results, while official comments have dwelt chiefly on the personal triumphs of the various delegations. The reactions seem based largely on a feeling that Latin American objectives were frustrated at Caracas.

Many Latin American delegations arrived at Caracas convinced that virtual unanimity of the 19 countries could force decisive action by the United States to solve some of their pressing economic problems and hasten the end of colonialism in the hemisphere. They also believed that Washington's anti-Communist resolution could be cleansed of "interventionism" and altered to take note of the economic basis of Communism. Their present dissatisfaction apparently stems mainly from a feeling that none of these aspirations was achieved.

In addition, many Latin Americans now see the fortnight devoted to debating the anti-Communist resolution as an unfortunate monopolizing of time which might have been spent on other pressing matters. The decision to hold a special economic conference at Rio de Janeiro in November also appears in a less favorable light in retrospect.

This general sense of frustration may explain in part the unexpected praise accorded Guatemala since the conference by a group of Brazilian congressmen, and in an oblique fashion, by the president of Ecuador. This praise, as well as that from pro-Guatemalan groups in other countries, was inspired by Guatemala's championship of nonintervention principles and of economic reform.

The bitterest comment thus far, and the only non-Communist attempt to pin blame on the United States directly, has come from the normally pro-American foreign minister of El Salvador, Roberto Canessa, who shortly after the conference adjourned, publicly termed it a complete failure and accused the United States of showing a "lack of inter-American spirit" in abstaining on the anticolonial votes. "Disillusionment" with the outcome of the colonial issue has also been expressed by semiofficial Argentine newspapers, as well as in the press in Colombia, Ecuador, Panama, and elsewhere.

Varying degrees of dissatisfaction have been displayed on the anti-Communist resolution. For example, both Argentina, which abstained, and Uruguay, which voted for the resolution, have indicated uneasiness at the positions they feel they were forced to take. Pride plus pique at the American failure to support the Argentine anticolonial resolution are believed by the American embassy in Buenos Aires to have figured in Argentina's final vote. The Uruguayan delegation, on the other hand, felt obliged to issue an "explanation" of its favorable vote.

Latin American comment on the economic resolutions passed at Caracas has been less specific than that on other major items, possibly because the same topics will come up for discussion again at the impending special economic conference. The press has, however, lamented the "postponement" of economic decisions, one conservative Peruvian paper stating, "Just as the chief result of Berlin was Geneva, so the chief result of Caracas is Rio de Janeiro."

Unequivocal enthusiasm for the Caracas conference has been limited thus far to the Dominican and Nicaraguan press, and to the self-serving statements of some of the delegations. Typical of the "average" reaction is this statement to the press by the chief Ecuadoran delegate: "Our delegation behaved brilliantly.... The conference did not take a forward step, but neither did it slip back. Its resolutions lack decision."

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PROSPECTS FOR FRENCH REFORMS IN TUNISIA

The most recent French reforms for Tunisia are opposed both by the French settlers and by the nationalists. Approved by the bey in March, the reforms attempt to maintain the status quo and are no improvement over the programs rejected by the Neo-Destour nationalists in 1952.

The French government, beset in Indochina and unable to solve the deteriorating situation in Morocco, will probably be faced with increased nationalist agitation for autonomy and eventual independence. The violence of 1952-53 may be repeated and attempts made to bring pressure on France in the UN by having the Arab-Asian bloc reintroduce the Tunisian question.

The reforms appear to grant local autonomy but power remains in French hands. Tunisians are given a majority in the cabinet and the Tunisian council president is alleged to have increased power. The new cabinet, however, is generally regarded as pro-French and key posts remain in French hands. France's veto power and firm financial control are unchanged. The all-Tunisian national assembly is only advisory, can only debate social and economic matters, and has to open any session on budget matters to an equal number of French settlers. No provision is made for carrying out promised reforms of the civil service, where 200 top posts are reserved for the French, and the resident general retains his veto power. Changes at the local level make new concessions to the French settlers.

The small but influential local French community strongly opposes any advances toward Tunisian autonomy. It has voiced its determination to take steps in Paris as well as in Tunis to protect its interests. The Tunisian nationalists' opposition still focuses on the issue on which reform negotiations broke down in 1952--the granting of political rights to the settlers, which they regard as an invasion of Tunisian sovereignty.

Prospects for settlement are not good. Constant friction and frustration are increasing inflexibility and distrust on both sides. The nationalists refuse to participate in the coming assembly elections unless civil rights suspended in 1952 are restored, direct suffrage introduced, and the voting age lowered. They also demand general amnesty for political detainees and release of Neo-Destour leader Habib Bourguiba.

Cognizant that they are unable to compel the French to grant them more than minimal concessions, the nationalists will probably once again try to focus world attention on Tunisia by demonstrations, strikes, terrorism, and agitation among the Arab-Asian states and in the United Nations.

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TURKISH ELECTION PROSPECTS

The Democratic Party in Turkey will probably be returned to office in the elections on 2 May. Regardless of which party is elected, the new Assembly will contain many new deputies. About half of the incumbents have been replaced on the lists by the party in an effort to weed out incompetent deputies who gained office in the 1950 surprise victory.

The Democrats have the advantage of being the party in power with an impressive four-year record. The party has given Turkey the first balanced budget since World War II; with American aid it has improved transportation, communications, and agriculture. It has increased foreign trade, though a serious imbalance still exists, and has maintained agriculture price supports. Democratic-sponsored foreign investment and petroleum laws have opened Turkey to further economic development and the country has increased its international prestige.

The Republican People's Party, the main opposition, has attacked inequalities in the foreign investment and petroleum laws and the high cost of living. It has brought charges of inept administration and undemocratic policies, singling out the stringent press law and the law confiscating the Republican Party's property. It offers something to every economic group, and promises to curb high prices, to stabilize the currency, and to encourage private enterprise.

Both major parties have presented strong slates of candidates, including many prominent figures. The Democratic slate has many prominent national officials whereas the Republican People's Party has drawn largely from such groups as journalists, educators, and retired military officers. A rift in the leadership of the Republican People's Party lessens its chances, especially as no coalition seems possible with the splinter Republican National Party--a coalition which could have seriously weakened the Democratic rural vote.

This is the first Turkish election in which the representatives of labor will play an active role. Unions are prohibited from political activity, but the Democrats have nominated two labor-leader candidates in an effort to attract labor support. The Republicans have also courted labor by vague promises of the right to strike, minimum wages, and reduced living costs.

The opposition has effective campaign weapons, but the advantage appears to be with the Democrats, whose confidence is tempered by memory of their surprise victory. The Democratic majority may be reduced by as much as 20 percent, but this margin will not endanger party control of the Assembly.

RUMANIAN ECONOMY FACES CRITICAL DIFFICULTIES

The difficulties of implementing the new economic course in the Orbit have reached near-crisis proportions in Rumania since the beginning of the year. As a result, the regime has been forced to concentrate on economic problems to the almost complete exclusion of political matters.

The Rumanian Workers' Party congress, originally scheduled to be held in March, has been put off until 30 October, long after the other Satellite congresses, "so that party organizations can concentrate all their efforts on the...development of the economy and the raising of the workers' living standard."

According to Rumania's 1953 plan fulfillment figures, industrial growth slowed down during 1953 and actually declined during the last quarter. Rumanian officials have admitted the continued serious under-fulfillment of production goals, particularly in the crucial fuel and power industries, during the first quarter of this year. Blizzards in January and early February paralyzed transportation and crippled production for several weeks.

Rumania's economic problems are highlighted by sharp pay cuts which are believed to be widespread among military, administrative and industrial personnel and by reported layoffs in the military and administrative services. Economic factors have also prevented the lowering of prices and ending of rationing despite the Orbit-wide policy of adopting such measures to gain popular support.

The regime is apparently trying to concentrate an increased proportion of its financial resources on short-term development of consumer goods production. In contrast with most of the other Satellites, which have generally maintained their military budgets in 1954, the Rumanian budget indicates a 37-percent reduction in military expenditures below last year.

Despite these efforts, however, economic difficulties make it unlikely that the regime will be able to gain the support of the masses by raising the workers' standard of living. The postponement of the congress and the admission by Premier Gheorghiu-Dej of failure of party propaganda activity among the lower level of party members and workers indicate the regime's concern over the confusion and apathy apparent in the Rumanian Workers' Party as a result of uncertainty over the practicability of the new course.

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30 Apr 54

SPECIAL ARTICLETHE SOVIET TRADE DRIVE AND THE PROSPECTIVE
RELAXATION OF WESTERN CONTROLS

Decisions taken by the Western powers in recent talks in London and Paris will result by mid-1954 in substantial modification of the East-West trade controls developed during the past five years. Although the anticipated relaxation will be somewhat less drastic than that implied by Churchill's policy declaration of 26 February, the number of controlled items is certain to be cut very considerably.

Relaxation of controls is not in itself likely to lead to a major over-all increase in Western trade with the Orbit, but will give a psychological boost to the current Soviet trade drive. Furthermore, pressure is already strong in COCOM countries* for reconsideration of the more stringent controls over trade with Communist China.

Opinion in favor of relaxing controls has increased in all Western countries during the past two years. The most important influence in this direction has been the British government, which considers that rising competition in the country's traditional export markets makes it necessary to accept attractive Soviet trade offers even if there is no assurance that the new outlets will be permanent.

Responding also to American willingness to adapt trade controls to the "long haul" concept of Western defense, Britain earlier this year proposed the restriction of International List I (embargo) to items of military or near-military significance, and the elimination of List II (quantitative controls) and List III (watch list).

At a high-level trade control conference of American, British, and French representatives in London on 29 and 30 March, the British agreed to hold their proposal in abeyance and accept instead a resurvey in COCOM of existing control lists. Three

*United States, Canada, United Kingdom, France, Italy, West Germany, Japan, Belgium, Netherlands, Luxembourg, Norway, Denmark, Iceland, Portugal, Greece, and Turkey.

broad strategic criteria for future control lists were agreed on: (1) materials and equipment "designed especially or used principally for the development, production or utilization of arms, ammunition or implements of war"; (2) items incorporating advanced technology, the acquisition of which might reasonably be expected to permit a significant advance in achieved or expected Soviet bloc technology in military or atomic energy production; and (3) items in which the bloc has a deficiency which is critical for military capabilities and which could not be overcome within a short period.

This tripartite proposal was accepted without major revision by the Consultative Group meeting in Paris on 13 and 14 April. The eventual level of controls will depend on the outcome of the three-month item-by-item review of the lists now under way in COCOM. A number of important issues have not been resolved and the basic British desire for sharp reductions in the control lists has not changed.

The results thus far of secret tripartite talks, being held prior to the discussions in COCOM on specific items, suggest that substantial decontrol is inevitable. The tripartite talks on metal-working machinery, for example, have been marked by persistent British and, to a lesser extent, French arguments that items of "general usage" should not be embargoed despite their possible military use. The president of the British Board of Trade has twice intervened in these discussions, and in letters to FOA Administrator Stassen has threatened that his government may appeal directly to COCOM. There are indications that the "general purpose argument" will also be attractive to other countries whose commercial interests would be materially advanced by decontrol.

Retention of quantitative controls has been endorsed by a number of countries and may prove to be the only way of retaining items under control when full embargo cannot be agreed on. There are, however, wide divergencies of opinion as to how such controls should operate, and in any event, the items so controlled are certain to be far fewer than the 188 listings on the present Lists II and III.

This question of quantitative or quota controls is likely to produce special difficulties in the field of merchant shipping. Revision of regulations on merchant ship construction, repair, and chartering has been under discussion for many months, but the prospects for agreement have not been bright. In these discussions, the desire of Western nations to keep their shipyards employed has sharply conflicted with their interest in

denying the USSR facilities for modernizing its merchant fleet while Orbit facilities are devoted to naval construction. The United States and Britain have reached agreement on embargo restrictions applying to merchant ships, and on the principle of quota controls for non-embargo ships. London's position on List II controls in general and in their specific application to merchant ships is, however, still unclear.

Other issues not resolved at the mid-April Paris meeting are the "timing" of effective release of specific items from the various control lists, measures for improving enforcement controls, and the whole problem of relaxing restrictions on trade with Communist China.

On the first of these questions, the Consultative Group's instructions to COCOM envisage "en masse" release after the review has been completed, a procedure which would have clear advantages for orderly decontrol. The language permits the release of specific items as soon as decontrol has been agreed on, however, and the British have been pressing for progressive release, citing Stassen's agreement to this method. The interest of the British in this procedural issue probably stems from the fact that they already hold substantial Soviet orders for items on the metal-working and electrical machinery lists still in force.

There was unanimous agreement at the Paris meeting on the need for stringent enforcement of whatever controls remain after the COCOM review. In fact, however, much will depend on London's attitude toward the institution of transactions controls--i.e., controls over purchases and sales of commodities in foreign countries for shipment to the Soviet bloc. British representatives made it clear that the informal agreement to seek cabinet approval of such controls is contingent on a "substantial" relaxation of the international control lists, and on the institution of physical controls over transshipments by other COCOM members.

Japanese and Portuguese desires for an early review of the China trade controls have also continued to pose difficulties. Both countries argued at Paris that further exaggeration of the differential in controls on Soviet bloc trade and trade with China would increase the extent of transit trade through the bloc to China, and hence give Moscow additional political and economic leverage in Peiping. The only decision reached, however, was to examine this problem again in July. The willingness of other countries--particularly France--to hold the line on the China controls will probably depend on the outcome of the Geneva conference.

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The scheduled timing of the relaxation of trade controls may prove embarrassing to the West in several respects. A major decontrol in July closely following Soviet protestations of willingness to "trade for trade's sake" is likely to be publicized by Communists in general as evidence of Western weakness. This would particularly be the case should the Geneva conference increase rather than diminish world tensions. Coinciding with increased Soviet emphasis on technical assistance to underdeveloped countries, moreover, Western willingness to do business with the Orbit may make it more difficult for these governments to reject such Soviet offers.

In the long run, however, the additional political and economic advantages which the Soviet Union will derive from freer access to Western products will depend on its own capacity to deliver. Some expansion of Soviet trade with the West will take place this year, but present Soviet export difficulties will probably make this increase small, despite the USSR's propaganda that it can "increase the 1953 trade turnover almost four times this year."

After falling drastically in the first six months of 1953, Soviet trade with the non-Communist world has been running at a rate roughly equal to that of 1951 and 1952. Even this recovery has entailed major shifts in the Soviet export pattern, with most of the traditional grain exports replaced by increased deliveries of petroleum products, manganese and chrome ores, silver, and platinum.

Soviet deliveries under trade agreements signed during 1953 have thus far lagged. To finance imports, the Soviet government accordingly continued its sales of unusually large quantities of gold in late 1953 despite declining gold prices, and has been negotiating further substantial sales to the West this year. Moscow has also considerably expanded its commitments for crude oil deliveries and is increasing exports of petroleum products. Nonetheless, the key factor in the Soviet Union's program for large-scale expansion is its capacity to produce grain for export--which in turn depends on the success of the current, risky reclamation program.

Reports that the Soviet Union is surveying the prospects for a multilateral clearing agency connected with the European Payments Union also suggest concern over the restrictive nature of bilateral trade agreements and the hope for new credit facilities from the West.

On the whole, however, these efforts are not impressive, and scarcely justify the optimistic hopes of many Western countries for a thriving and tension-reducing trade with the Soviet Orbit. A major purpose of Soviet trade offers seems to have been to increase demands in COCOM for relaxation of controls beyond the point the United States was willing to accept, and in so doing to put additional strains on the Western alliance.